

ESG “Greenwashing” Case Analysis

-- Reasons for Corporate “Greenwashing” and Possible Measures

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Abstract: If companies want to achieve true green and sustainable development, they must spend a lot of money to transform and upgrade equipment and technology. However, given the current social sensitivity to ESG topics and investors' increased emphasis on "high quality" and "sustainable" development, if companies fail to achieve transformation breakthroughs in a timely manner, they are likely to lose a lot of economic benefits and have long-term negative impacts on product competitiveness and corporate image. This article selects Tesla as a specific negative case, comprehensively analyzes the specific process of "greenwashing" from both qualitative and quantitative perspectives, analyzes the defects of ESG itself, the profits brought by ESG and the profit-seeking nature of enterprises, and the shortcomings of Tesla itself in corporate governance, and analyzes the causes of Tesla's greenwashing behavior in 2022 and before based on financial fraud theories such as the iceberg theory and the GONE theory. The study found that Tesla, based on the shortcomings of the ESG evaluation mechanism and the company's internal strategic needs, carried out greenwashing through deliberate concealment, bad checks and other means, and suffered considerable negative economic consequences for a certain period of time after the facts were disclosed.

Keywords: ESG, ESG “Greenwashing”, Tesla, Fraud theory.

1. Introduction

At present, there is a clear gap between China and the world in terms of the degree of attention and research progress on ESG "greenwashing", both in academic research and social attention. The term "greenwashing" was first proposed by American environmentalist Jay Westerveld in 1986, and later became famous for the "Greenwashing Guide" published by Greenpeace. In 2007, TerraChoice, an American environmental marketing organization, conducted a large number of investigations and studies on environmental marketing, analyzed and listed several specific behaviors and means of corporate "greenwashing", and published the widely-watched "Six Sins of Greenwashing", which was further expanded to "Seven Sins of Greenwashing" in 2019. In China, in 2009, the Southern Weekend, a media outlet, first introduced the concept of "greenwashing", and after 2010, it published a "China Greenwashing List" every year. For example, Master Kong, which caused the "sauerkraut incident" a few years ago, was on the list. Until today when the concept of ESG has become popular, the research on ESG related issues in the domestic academic community is still not in-depth and comprehensive enough, and has not been in line with international standards. At the same time, relevant research is limited to macro-level research, and the few case studies are also limited to domestic food-related industries. "Greenwashing" may bring short-term benefits to the company, but it cannot achieve sustainable development of the company, nor fulfill the company's social responsibilities and obligations. It will make it impossible for companies that truly focus on green development to gain a foothold through the "bad money drives out good money" effect, which will ultimately be harmful to the company itself and not conducive to social progress. As a leader in the new energy vehicle industry, Tesla is a typical representative of scientific and technological innovation companies. Its international nature

can also provide a good expansion for current academic research. Therefore, this article will use Tesla as the main research case (negative case). In view of the various problems existing in Tesla, combined with relevant reasons, and connected with positive cases that have performed well in this regard, through sufficient research on both positive and negative sides, the reasons and solutions for greenwashing in companies such as Tesla are discussed as comprehensively as possible.

2. Literature Review

2.1. Motivations of Greenwashing by Enterprises

Regarding the research on the causes of corporate greenwashing, domestic and foreign scholars mainly conduct research from the perspectives of neoclassical economics, information economics, institutional economics, stakeholders and impression management.

The perspective of neoclassical economics mainly starts from the perspective that enterprises are rational economic people, and through the fundamental element of enterprise's profit-seeking, explains the motivation of greenwashing from the perspective of factors such as cost reduction and profit increase in greenwashing. For example, Li Dayuan believes that under the framework of neoclassical economics, due to the increasing weight of ESG influence in consumer preferences and factors such as government green subsidies, enterprises with the purpose of maximizing profits will try their best to obtain this part of the green premium, and if enterprises cannot achieve the corresponding green behavior as expected, they will choose to implement greenwashing to a certain extent [1].

From the perspective of information economics, it is believed that there is a great deal of information asymmetry in the green market, which mainly refers to the inability of

consumers to distinguish the authenticity of so-called "green products" (this is often related to the information disclosure and supervision system, that is, the perspective of institutional economics). Representative scholars include: Christopher Marquis et al., Bi Siyong and Zhang Longjun et al [2, 3].

From the perspective of institutional economics, objective institutional loopholes, such as the lack of uniformity in the supervision system, information disclosure system, and ESG standards, actually reduce the cost of greenwashing for enterprises, which in turn encourages greenwashing behavior. For example, Bi Siyong and others believe that the lack of relevant laws and inadequate corporate supervision allow enterprises to exploit institutional loopholes to seek high profits at low cost [3].

The stakeholder perspective believes that companies have to create an "ESG-friendly" image due to the demands of stakeholders such as consumers and investors. This perspective is essentially consistent with the impression management perspective. It's just that the stakeholder perspective is more inclined to actual economic interests, while the impression management perspective is more inclined to intangible market competitiveness such as corporate image and goodwill. Representative scholars include: Huang Shizhong, Deegan, Gordon [4, 5], etc.

2.2. Consequences and Impacts of Greenwashing

The impact of greenwashing can be divided into the impact on enterprises and the impact on stakeholders, such as consumers and investors.

For enterprises, the impact of greenwashing can be divided into the impact on financial performance and the impact on non-financial performance (such as goodwill, corporate image, etc.). In terms of financial performance: Kent Walker et al.'s study on highly polluting companies in Canada showed that the greenwashing behavior of enterprises actually has a negative impact on the financial performance of enterprises [6]; while Sun Jianqiang et al.'s study showed that the financial performance of enterprises is negatively affected after the exposure of greenwashing behavior [7]. In terms of non-financial performance: Ioannis Ioannou et al. found that corporate greenwashing behavior will have a negative impact on customer satisfaction and the company's reputation for capability [8]; Abdul Research by Qayyum et al. shows that corporate greenwashing behavior will have a negative impact on corporate GBE (green brand equity) [9].

For stakeholders, the impact of greenwashing is extensive. Rubab Tahir et al. found that corporate greenwashing behavior will have a negative mediating effect on the green value orientation and green psychological atmosphere of its employees [10]. Bi Siyong et al.'s research shows that greenwashing behavior will mislead consumers' judgment of green products, damage the reputation of green products, and produce the effect of bad money driving out good money, making "fake green" harmful to the development of real green enterprises; Huang Zhongwei's research also shows a similar point of view [11].

3. Theoretical Basis

3.1. Information Asymmetry Theory

There is an information gap between stakeholders and companies in the market. Under the existing ESG rating mechanism and related regulatory mechanisms,

"greenwashing" behavior actually has considerable room for manipulation. Therefore, it is quite common for companies to make false or selective disclosures in the green market, and investors and consumers alike can easily be misled.

3.2. Cost-Benefit Theory

The cost-benefit theory was first mentioned by European scholar Dupuit. Its core idea is that the expected benefits of a product must match the cost as much as possible. This theory can almost be regarded as one of the core reasons for corporate greenwashing. The profit-seeking nature of enterprises prompts them to earn high profits in the green market at the low cost of greenwashing. The cost-benefit theory well explains the subjective motivation of corporate greenwashing.

3.3. Stakeholder Theory

The definition of stakeholders was first proposed by Stanford University in 1963. Its scope includes all groups related to corporate interests, such as consumers, investors, suppliers, and government departments. They play an important role in corporate decision-making. In the "greenwashing" behavior of enterprises, factors such as inadequate government supervision, investor expectations, and insufficient consumer awareness can all become the motivation for corporate greenwashing. Countermeasures and suggestions for corporate greenwashing can often be based on the perspective of stakeholders, such as strengthening public supervision and formulating relevant laws and regulations.

4. Tesla's Greenwashing Case Study

4.1. Overview about Tesla

Tesla, Inc., formerly known as Tesla Motors, is the largest electric car and solar panel company in the United States. It cooperates with Panasonic in the battery business, produces and sells electric vehicles, on-board computers (FSD systems), solar panels, and energy storage equipment and system solutions. The company was founded in 2003 by Martin Eberhard and Marc Tarpenning. Elon Musk became the company's chairman in 2004 and CEO in 2008. Tesla is the world's earliest manufacturer of self-driving cars. By 2018, Tesla Motors has become the world's best-selling plug-in car company. As a leading company in the field of new energy vehicles, Tesla has always claimed to adhere to green and sustainable development. The slogan "The faster the world stops relying on fossil fuels and moves towards a zero-emission future, the better" is even more well-known. With labels such as "green and sustainable" and "new energy" and strong market and technical performance, Tesla's market value will be approximately US\$789.89 billion by the end of 2023.

4.2. Tesla's "Greenwashing" Case Experience

4.2.1. Domestically

Southern Weekend is the first media to introduce "greenwashing" into the public eye and has been tracking the issue of "greenwashing" in enterprises for a long time. The "Greenwashing List" regularly released by Southern Weekend is of great reference significance. Tesla ranks first in the 2022 China Greenwashing List. Environmental protection organizations such as the Institute of Public and Environmental Affairs (IPE) and Green Jiangnan (PECC) have been tracking for a long time and found that many Tesla

suppliers have violated regulations. Violations include failure to install and use the VOCs (volatile organic compounds) generation process as required.

In fact, since 2021, the Institute of Public and Environmental Affairs (IPE) and Green Jiangnan Public Environmental Concern Center (Green Jiangnan) have investigated environmental issues in the electric vehicle (EV) supply chain, including Tesla. They found that the industry

has multiple environmental violations related to exhaust gas pollution in pollution prevention and control facilities, as well as complaints from local residents due to the stench of exhaust gas. IPE and Green Jiangnan have been urging Tesla to urge its suppliers to publicly disclose their corrective measures for past environmental violations. However, as of the time of the report, Tesla does not seem to have done so yet. (As shown in the Figure 1)

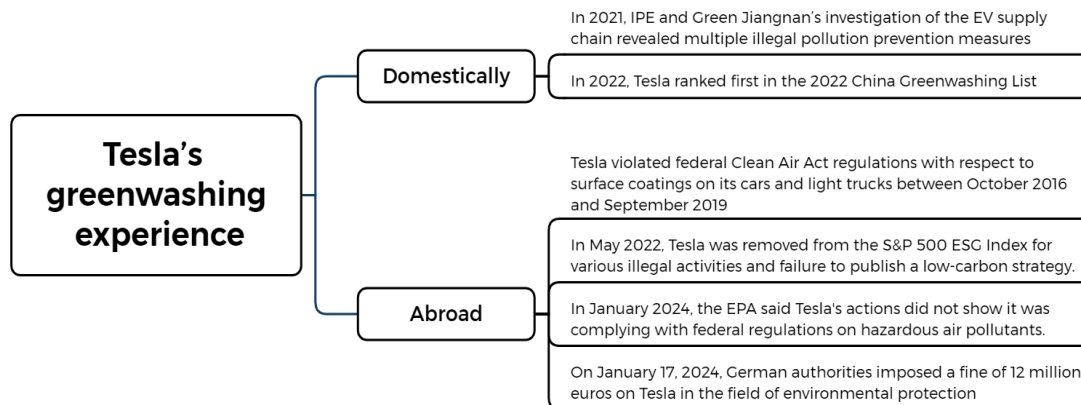


Figure 1. Tesla's greenwashing experience

4.2.2. Abroad

On February 22, 2022, the U.S. Environmental Protection Agency (EPA) announced a settlement with Tesla Motors for violations of the Clean Air Act at its automobile manufacturing plant in Fremont, California. The details are as follows:

The EPA found that Tesla violated the federal Clean Air Act's National Emission Standards for Hazardous Air Pollutants from Surface Coatings of Automobiles and Light Trucks between October 2016 and September 2019. The violations included failure to develop and implement a work practice plan to minimize emissions of hazardous air pollutants during the storage and mixing of materials used in vehicle painting operations. Tesla also failed to properly perform the required monthly emissions calculations to demonstrate that the facility's coating operations met federal hazardous air pollutant standards, and did not collect and maintain all required records related to calculating the emission rates of hazardous air pollutants from Tesla's coating operations. As part of the settlement, Tesla agreed to pay a fine of \$275,000 and to gradually correct the problems in the future. In May 2022, Tesla was removed from the S&P 500ESG Index for various violations and failure to disclose a low-carbon strategy.

However, in January 2024, the U.S. Environmental

Protection Agency said Tesla had not shown that it complied with federal regulations on hazardous air pollutants (cited from the U.S. Environmental Protection Agency file, https://www.sec.gov/Archives/edgar/data/1318605/000095017021000046/tsla-20210331.htm#legal_proceedings). At the same time, in a financial statement released on January 17, 2024, German authorities have fined Tesla 12 million euros (about 14.5 million U.S. dollars) for allegedly neglecting to make public disclosures and fulfill its obligations to take back customers' old batteries.

In addition to the "greenwashing" in environmental protection such as gas emissions, which is the "E" aspect, Tesla also has corresponding greenwashing behavior in the "S" (social) aspect.

At the 2022 Tesla shareholders meeting, the proposals rejected by Tesla were basically related to "S". Such as: gender diversity, child labor, labor rights issues, etc. (As shown in Figure 2, they are almost half of the proposals rejected by the Tesla shareholders meeting, more details in <https://cleantechnica.com/2022/08/06/analyzing-the-tesla-shareholder-proposals-that-failed/>) In fact, Tesla had previously faced an accusation of child labor in the cobalt procurement supply chain in the Democratic Republic of the Congo.

- **Endorsing the right of employees to form a union (11):** The sixth speaker spoke about human rights and due diligence about worker rights. The board's indifferent response to workers' rights is cause for shareholder concern, the speaker asserted. Tesla's peers "explicitly reference" the right of freedom of association regarding operations, yet Tesla creates "workforce uncertainty" by failing to allow freedom of association.
- **More reporting on children's human rights:** Requesting a public report by 2025, the shareholder activist explained that cobalt mining in the Democratic Republic of Congo involves exploiting child labor, with children "who are often enticed to work for a few coins." The result is that "poverty, injury, and even death is a daily reality." The speaker stated that Tesla is complicit in "aiding and abetting" children's risks within its supply chain.
- **Reporting on water risk (13):** A representative from As You Sow asked for more board attention to drinking water and agriculture, as Tesla uses significant amounts of water in its manufacturing, including in areas that are experiencing water risk. Shareholders need a tool to put Tesla's water-based usage and risk into perspective, the speaker said.

Figure 2. Proposals rejected by the Tesla shareholders meeting

4.3. Tesla's "Greenwashing" Methods

4.3.1. Deliberate concealment

It refers to the act of claiming to follow the concept of environmental friendliness or sustainable development, but in fact refusing to disclose or deliberately concealing bad behavior. Tesla's failure to disclose relevant key information on gas emissions and supplier pollution prevention can be regarded as deliberate concealment.

4.3.2. Empty promises

It refers to the behavior of companies that violate the concept of environmental friendliness and sustainability, but lack actual actions, and only use verbal apologies or promises to establish an environmentally friendly image for the company. Tesla did not truthfully correct the relevant issues after reaching a settlement with the EPA, which is an act of writing empty promises. Similar greenwashing methods include: blatant deception, tight first and loose later, etc., which are classified as the same category here, that is, they are all essentially exaggerations.

4.3.3. Double standards

It refers to the behavior of claiming to follow environmental friendliness or sustainable development in one country or region, but doing things that are inconsistent with the claim in another country or region. Tesla complies with ESG concepts in the United States, China, Europe and other countries, but this is not always the case in third world countries, such as the child labor issue in the Republic of Congo.

4.3.4. Blurring vision

Companies use unfamiliar or vague concepts and words to

mislead consumers into believing that their products have environmental benefits or that the company has good environmental practices. It can be said that the field of new energy vehicles itself has a certain blurred vision. Although electric vehicles have some environmentally friendly features on the surface, such as no exhaust emissions when driving, electric vehicles still have great environmental problems and controversies in automobile manufacturing (such as battery supply chain) and subsequent use (such as charging stations) due to technical limitations and other factors. Taking Tesla's "Supercharger Station Plan" and other projects as an example, due to the current limitations of battery-related technology levels and other factors, its pros and cons for environmental protection are still difficult to measure, but Tesla still insists that it is on the path of green and sustainable development. Similar behavior is "counterproductive". Tesla's Supercharger Station Plan may have the goal and original intention to be in line with the ESG concept, but the actual technical limitations have made the final result counterproductive.

4.4. Consequences of Tesla's "Greenwashing"

Taking the settlement between Tesla and the EPA on February 18, 2022 as an example (the penalty had already occurred before the 18th), it can be found that Tesla's stock price has fallen significantly (as shown in the figure 3), reaching its lowest point at one point. On May 18 of the same year, Tesla was removed from the S&P 500 ESG Index, and the originally rising stock price was suppressed and continued to fall for a certain period of time. At the same time, Tesla is also under tremendous pressure from public opinion.

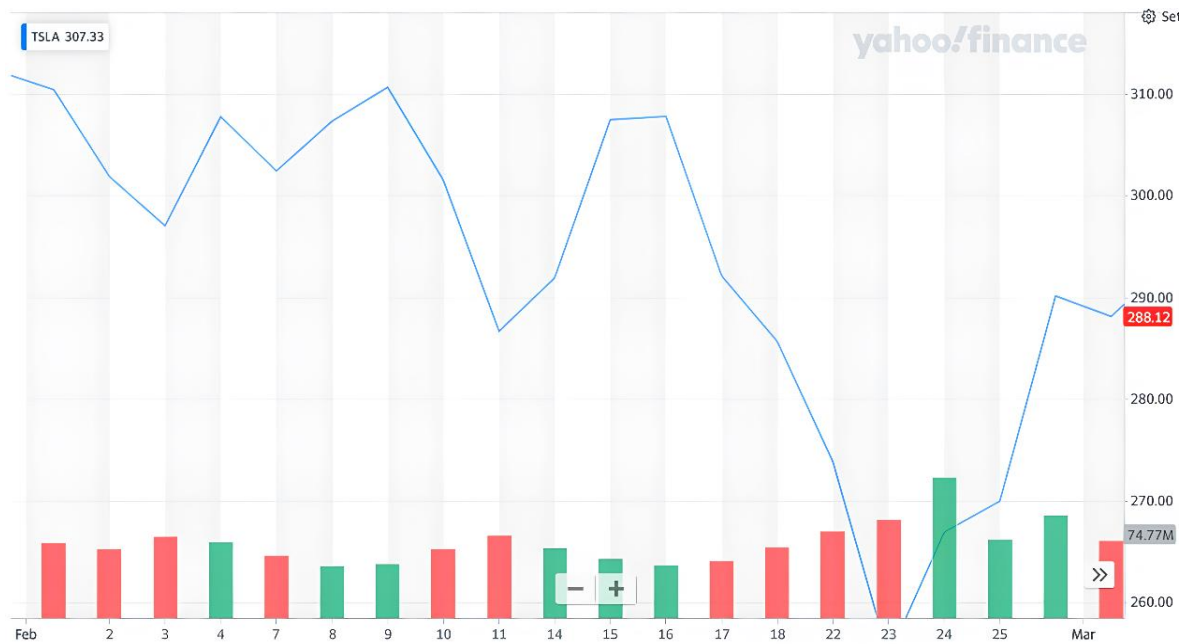


Figure 3. The change of Tesla's stock price after the exposure of greenwashing

5. Analysis of the Reasons for Tesla's Greenwashing

5.1. The ESG Concept Itself is Controversial

Like many emerging concepts, the ESG concept itself is actually full of controversy. Therefore, on a theoretical level, there is already a certain split within groups such as society and enterprises. This split to a certain extent explains the rationality of the existence of many "greenwashing" behaviors.

When we examine the words similar to "greenwashing" - "bluwashing" and "pinkwashing", we can understand this more deeply. "Bluwashing" refers to the behavior of enterprises and financial institutions that are keen to advertise that they have become signatories of the United Nations Sustainable Development Goals (SDGs) and the Principles for Responsible Investment (PRI) and do their own thing in the process of operation, investment and financing; "pinkwashing" refers to the behavior of enterprises and financial institutions that claim to respect and protect the rights and interests of LGBTQIA (lesbian, gay, bisexual, transgender, queer, intersex, and asexual) but actually discriminate against employees of different sexual orientations [4]. Without considering the question of who is right or wrong, the reality is that there are still large-scale conflicts and disputes about the concepts promoted by the United Nations, the LGBTQIA concept, and even the theme of this article - the ESG concept. There is no ideological unity in society, enterprises, etc. Therefore, in the process of practice, related behaviors such as "greenwashing", "bluwashing" and "pinkwashing" will naturally appear.

In fact, Tesla CEO Musk said on May 19, 2022: "ESG is a scam. It has been weaponized by phony social justice warriors." The main points of his opposition are:

(1) Opacity and subjectivity: Musk believes that the ESG rating system lacks transparency, has unclear evaluation criteria, is highly subjective, and can easily lead to misleading conclusions.

(2) Distorting corporate priorities: Musk believes that ESG ratings may cause companies to deviate from their core objectives, forcing them to ignore shareholder interests and

corporate performance when pursuing social and environmental goals.

(3) Commercial motives and conflicts of interest: Musk believes that some rating agencies and fund companies use ESG as a marketing tool, which leads to conflicts of interest and cannot truly reflect the sustainable development status of enterprises.

(4) Impact on innovation efficiency: Excessive focus on ESG may limit corporate innovation and operational efficiency, especially in the rapidly developing technology industry. Musk believes that such restrictions are not conducive to overall economic and social progress.

In addition, Ohio Senator J.D. Vance, who was appointed by Trump as his vice-presidential candidate on July 15, 2024, has been sharply critical of the ESG concept. During his tenure as a senator, he frequently criticized the ESG concept. He regards ESG as a symbol of "awakening capitalism". His opposition to ESG is consistent with the positions of other conservative leaders in the Republican Party such as Vivek Ramaswamy, and is representative to a certain extent, so it is listed in detail below. His opposition points are mainly concentrated on three core issues:

(1) Economic benefit trade-off: The ESG concept overemphasizes non-economic factors, increasing corporate costs and affecting their global competitiveness.

(2) Ideological conflict: Vance and others believe that ESG is an infiltration of liberal values and that it violates the principle of free competition in the market economy.

(3) Distortion of market mechanisms: Vance and others believe that the promotion of ESG standards may lead to an imbalance in resource allocation and undermine the market's ability to self-regulate.

Ramaswamy founded Strive Asset Management in 2022, explicitly stating that its goal is to "eliminate the impact of woke capitalism on business." Strive has worked with other leaders within the Republican Party to push states to pass legislation banning ESG investing and encourage state pension boards to shift funds to non-ESG investments. This anti-ESG sentiment has been widely supported and promoted within the Republican Party, becoming the focus of a new round of cultural wars.

The key connection between the above and this case study

is that on July 14, Musk publicly announced his full support for Trump 's campaign and pledged to donate \$45 million per month to the super PAC supporting Trump. This move is undoubtedly an announcement of his alliance with Trump. And this behavior is bound to foreshadow Tesla's future direction to a certain extent.

5.2. Disadvantages of ESG Assessment Mechanism

The shortcomings of the ESG assessment mechanism mainly lie in the lack of unified standards, unclear requirements and non-mandatory disclosure.

At present, the performance of enterprises in the ESG field is mainly achieved through the evaluation of ESG rating agencies, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD), etc. Regardless of the independence and fairness of these organizations themselves, there is room for manipulation in the rating standards of these organizations alone. These organizations all provide different ESG reporting frameworks, and companies can choose the framework that best suits their needs based on their company's situation.

Taking Tesla's 2022 ESG report as an example, Tesla uses the USEEIO template to estimate its greenhouse gas emissions reduction based on real mileage data of more than 4 million cars on the road. This method allows manufacturing companies to rely on a template that can greatly underreport vehicle emissions during the use phase, that is, relying solely on raw data can selectively ignore a considerable portion of the vehicle's emissions throughout its entire life cycle, which obviously seriously underestimates the emissions during the vehicle's use phase. It is estimated that this emission accounts for 90% of the total emissions of automobiles.

In addition, the problem of inconsistent standards is not only reflected in the selection of ESG assessment frameworks, but its impact is more far-reaching than imagined. The

inconsistent standards and unclear requirements of ESG reports will also lead to the inability of most companies and financial institutions to establish corresponding internal control systems for the collection process, statistical methods, traceability requirements, and audit verification of environmental data and environmental information. The ESG information disclosure of companies and financial institutions is relatively casual and of low quality. The relevant internal control of environmental information disclosure is imperfect, which leads to the unimpeded "greenwashing" of ESG reports and the chaotic ESG management of companies.

5.3. Immature Data Foundation

Regarding the data foundation level: First, unlike financial reports, which have solid and systematic underlying data, the underlying data foundation required for the preparation of ESG reports is very weak, and the digitalization level of related information systems is far behind that of financial reporting information systems [4]. In addition, most of the data in financial reports are historical information, while a considerable part of the data in ESG reports are forward-looking information. For example, companies must disclose in ESG reports the short-term, medium-term and long-term impacts of major climate-related risks and opportunities on business models, financial conditions, operating performance and cash flows. Furthermore, the qualitative information contained in ESG reports (such as the roadmap and timetable for reducing greenhouse gas emissions disclosed by companies) is far more than that in financial reports, which are mainly quantitative information. This gives ESG reports themselves a lot of subjectivity and operability. For example, the emission reduction path of its own products (EV) mentioned in Tesla's 2022 ESG report (as shown in Figure 4). Obviously, it is difficult to ensure the reliability of such reports in terms of data characteristics (forward-looking, qualitative) or speculation basis (more subjective components).

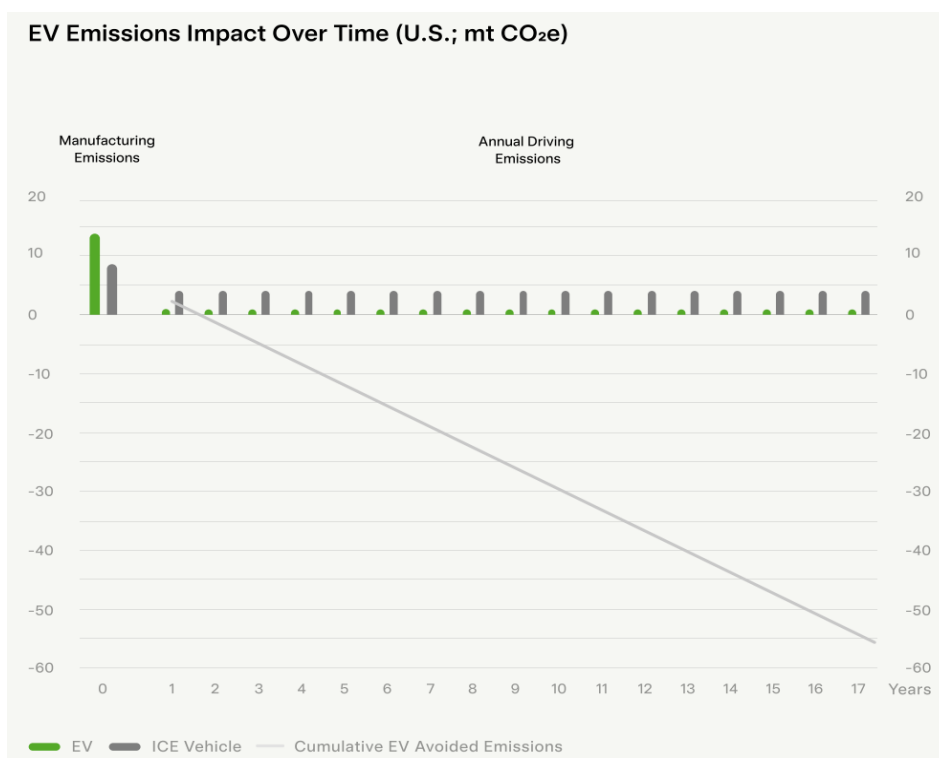


Figure 4. The emission reduction path of EV shown in Tesla's 2022 ESG report

The figure shows the EV emission reduction path in Tesla's 2022 ESG report. Obviously, it is difficult to ensure the reliability of such a report, whether in terms of data characteristics (forward-looking and qualitative data) or inference basis (more subjective components).

5.4. Enterprise Supply Chain Deficiencies

In Tesla's 2022 ESG report, Tesla admitted that it had underestimated its supply chain emissions in the past due to the complexity of the supply chain and challenges in data availability, consistency and reporting. Tesla's carbon emissions from goods and services purchased from third-party suppliers in 22 years were approximately 30,000 tons, which is by far the largest part of its footprint. As shown in the Figure 5, Tesla's supply chain emissions mainly come from the acquisition, refining, processing and transportation of raw materials, which mainly come from the processing of chemical materials; secondly, it is mainly due to its battery chain, mainly due to the use of a large number of lithium-ion batteries. The sustainability report describes Tesla's carbon footprint and an overview of the upstream supply chain from procurement to batteries, showing Tesla's immature technology and management in the supply chain.

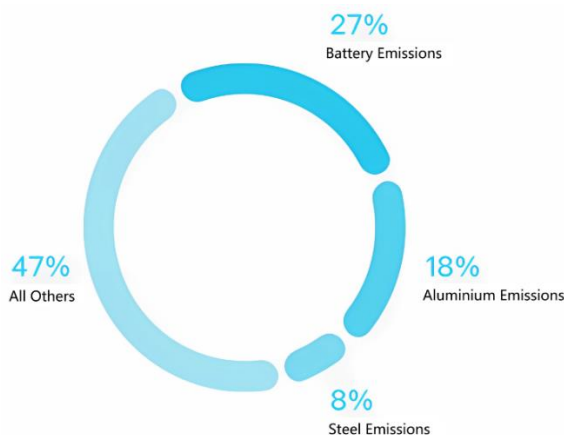


Figure 5. Tesla's supply chain emissions composition

In addition, a major issue in Tesla's supply chain is the presence of child labor in the cobalt procurement supply chain in the Democratic Republic of the Congo. Cobalt is a key component of lithium-ion batteries used in electric vehicles, including those manufactured by Tesla. The Democratic Republic of the Congo is one of the world's largest producers of cobalt, and the mining industry in the region has faced allegations of unethical labor practices, including child labor. As a company with a highly integrated vertical supply chain, Tesla should have more stringent management of its entire production process to meet its ESG commitments, but it is clear that Tesla has not strictly followed it. Regardless, ensuring that the cobalt used in its batteries is ethically sourced and free of child labor is a key challenge facing Tesla and other electric vehicle manufacturers. Solving these supply chain issues is critical to aligning with sustainable development goals and ethical business practices. Tesla's poor management of child labor issues actually reflects the extent to which Tesla monitors and enforces its global supply chain.

In short, Tesla's supply chain is highly vertically integrated,

but not mature enough. Tesla produces some parts itself, but it also relies on a network of suppliers. Tesla uses a variety of new technologies in its vehicles, such as unconventional and non-traditional technologies such as battery packs and electric motors, which require different parts and suppliers than traditional gasoline-powered vehicles, resulting in fewer suppliers and a smaller supply network. And precisely because there are fewer suppliers to rely on, Tesla is likely to be restricted by various local laws or social conditions of suppliers, causing Tesla to have to make compromises.

5.5. Corporate Governance Problems

ESG governance issues have always been inseparable from corporate governance. A good corporate management mechanism can effectively and efficiently solve ESG issues from the top to the middle and lower levels of the company. Tesla's corporate governance problems are mainly manifested in: insufficient leadership independence and initiative and problems with the functions of ESG governance institutions.

Tesla has long had a problem of excessive concentration of power, and all signs so far indicate that Tesla is now constantly weakening the influence of small shareholders and creating a situation where one person exerts disproportionate control over the company's decision-making process. At least five of the company's eight non-executive directors have close ties to Musk or one of his other companies. In a 2017 letter seeking two additional board members, five investors mentioned: "Five Tesla directors have professional or personal connections with Musk, which may jeopardize their ability to exercise independent judgment." William Klepper, a professor of corporate governance at Columbia Business School, commented: "I believe Elon Musk is a genius and he needs to be admired and encouraged, but this board of directors has to do more management oversight of the company. The board of directors is not meant to be a cheering committee." In fact, Musk granted \$300 million in stock options in two years, a huge grant that was seen as excessive and raised questions about the concentration of power within the company.

In addition, Tesla's current ESG-related governance mechanism only has an organization called the "Sustainability Committee", and its functional positioning is only "responsible for collecting data, writing the analysis and text of this report, and regularly submitting this information to the Tesla Board of Directors for review." (from 2020 Tesla Impact Report, https://www.tesla.cn/ns_videos/2020-tesla-impact-report_cn.pdf)

The scope is quite limited and restricted by the upper board of directors. This functional positioning that is born for "writing reports" and does not participate in decision-making or execution determines that it is ultimately just an empty organization that cannot play a role and has no obvious effect on the company's ESG governance.

5.6. Summary Analysis Based on Fraud Theory

In summary, the reasons for Tesla's "greenwashing" can be summarized by the GONE theory (As shown in Figure 6).

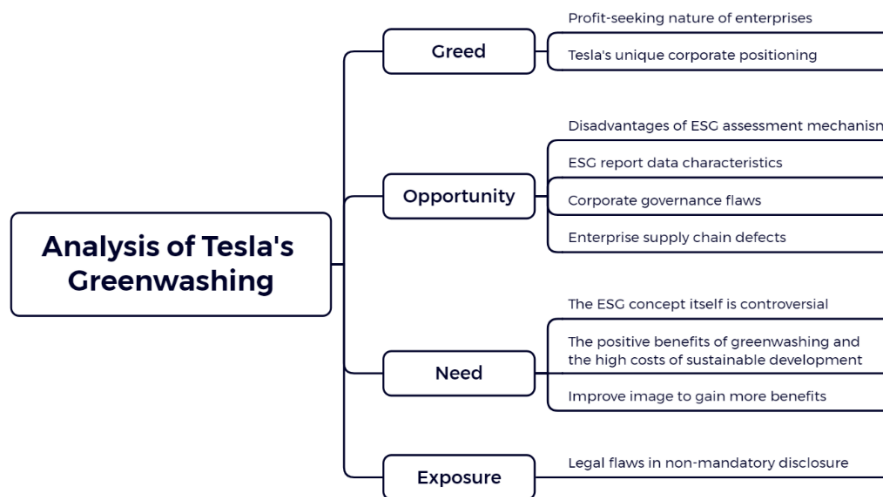


Figure 6. Analysis of Tesla's greenwashing based on Fraud theory

6. Research Conclusion

In summary, we can draw some conclusions about the causes and consequences of greenwashing in relation to Tesla's greenwashing in 2022. Tesla has adopted certain greenwashing measures based on the company's green financing needs, greenwashing cost considerations and other realistic factors under the imperfect institutional system such as the ESG evaluation mechanism. However, once such measures are disclosed, they will have considerable negative economic consequences.

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